

27 August 2020

Credit Rating

**Long-term (National):
(TR) AA**

**Outlook:
Stable**

**Short-term (National):
(TR) A1+**

**Outlook:
Stable**

**İş Gayrimenkul Yatırım
Ortaklığı A.Ş.**

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Rating Summary

İş Gayrimenkul Yatırım Ortaklığı A.Ş. ("the Company") is an establishment that invests in real estate, real estate projects, real estate backed securities and capital market instruments within the framework of the Capital Markets Board ("CMB") regulations. Founded in 1999, the Company was offered to public in the same year and is listed in Borsa İstanbul. The Company's capital and management control belongs to Türkiye İş Bankası A.Ş. (İş Bank).

Following our comparative analysis of the sector and examination of financial/operational risks carried by the Company, as well as its domestic market position, the previous long term rating of **(TR) AA** and the short term rating of **(TR) A1+** has been reconfirmed.

Previous Rating (August 27, 2019)

Long Term: (TR) AA

Short Term: (TR) A1+

Outlook

According to the 2019 year-end data, the Company ranked 4th in terms of asset size (12/2018: 4th) and 4th in terms of equity size (12/2018: 4th) among Real Estate Investment Companies which consists of 33 companies. As of 30th June 2020, the Company's market value has been calculated as TL 1,870 million (12/2019: TL 1,687 million), corresponding to a market share of 5.1%.

As of 30th June 2020, the Company's real estate portfolio size was TL 4,618,000,000. When the asset allocation is analysed, 81% of the portfolio consists of buildings with rental income, 6% with ongoing projects, 8% ready-to-sell real estate in the inventory and 5% consists of land.

The Company increased its revenue in 2019 by 9.8% compared to the previous year, while its rental/right-of-construction income in the same period increased by 13.4%. In addition, with the positive contribution of the capital gains of properties which do not generate cash inflows, the Company closed the period with a net profit of TL 297.4 million. In 2020,

rental and right-of-construction income decreased by 13.1% in the first half of the year compared to the same period of 2019, as result of the sales from the real estate portfolio and the rental discounts due to the extraordinary conditions which emerged with the pandemic. To offset the anticipated loss of rental income in 2020, the Company expects to balance the level of cash generation in the same period by decreasing investment expenditures and making use of the low interest environment introduced to help increase housing sales.

The fact that 67% of total revenue and 57% of the rental income in 2019 comes from İş Bank Group, is evaluated as a positive factor in terms of receivables quality. As of Q2 of 2020, the net foreign currency position of the Company, whose leverage ratio has decreased, was calculated at (+) TL 29.6 million, and as of this date, the income statement does not have a negative sensitivity to possible exchange rate hikes.

In addition to all these factors, the Company's outlook has been determined as "**Stable**", taking into account the ability of the Company to access finance and its strong ownership structure. However, the recent extraordinary developments in the global trade environment and money markets in relation to the Covid-19 epidemic make the potential economic consequences of the pandemic extremely uncertain. The developments are closely monitored by us and if the tangible risks materialize, their effects on the Company will be further evaluated.

Methodology

SAHA's credit rating methodology is composed of quantitative and qualitative sections contributing to the final grade with specific weights. The quantitative analysis components consist of the Company's performance compared to industry peers, analysis of the financial risks, and the assessment of cash flow projections. Comparative performance analysis determines the relative position of the Company as compared with industry peers' financial performances and industry averages. The financial risk analysis of our methodology covers the evaluation of the Company's financial ratios on the basis of objective criteria. Liquidity, leverage, asset quality, profitability, volatility and concentration are treated as sub-headings in this analysis. Finally, scenario analysis evaluates the Company's performance with respect to its capability to fulfil its obligations under the future projections of a base and a stress scenario.

The qualitative analysis covers operational issues such as industry and company risks as well as administrative risks in the context of corporate governance practices. The industry analysis evaluates factors like the nature and rate of growth of the industry, its competitive structure, structural analysis of customers and creditors, and sensitivity of the sector to risks at home and abroad. The company analysis evaluates market share and efficiency, trends and volatilities in key performance indicators, cost structure, service quality, organizational stability, access to domestic and foreign funding sources, off-balance sheet liabilities, accounting practices, and parent / subsidiary company relationships if any.

Corporate governance plays an important role in our methodology. Our methodology consists of four main sections; shareholders, public disclosure and transparency, stakeholders, and board of directors. The corporate governance methodology of SAHA can be accessed at www.saharating.com.

Rating Definitions

Our long term credit ratings reflects our present opinion regarding the mid to long term period of one year and above; Our short term credit ratings reflects our opinion regarding a period of one year. Our long term credit rating results start from AAA showing the highest quality grade and continue downward to the lowest rating of D (default). Plus (+) and minus (-) signs are used to make a more detailed distinction within categories AA to CCC.

Companies and securities rated with long-term AAA, AA, A, BBB and short-term A1 +, A1, A2, A3 categories should be considered “investment worthy” by the market.

Short Term	Long Term	Rating Definitions
(TR) A1+	(TR) AAA (TR) AA+ (TR) AA (TR) AA-	The highest credit quality. Indicates that ability to meet financial obligations is extremely high. For securities, it is an indication of no more than a slight additional risk as compared to risk-free government bonds.
(TR) A1	(TR) A+ (TR) A	Credit quality is very high. Very high ability to fulfil financial obligations. Sudden changes at the company level and/or economic and financial conditions may increase investment risk, but not significantly.
(TR) A2	(TR) A- (TR) BBB+	High ability to fulfil financial obligations, but may be affected by adverse economic conditions and changes.
(TR) A3	(TR) BBB (TR) BBB-	Sufficient financial ability to fulfil its obligations, but carries more risk in adverse economic conditions and changes. If securities; has adequate protection parameters, but issuer’s capacity to fulfil its obligations may weaken in face of adverse economic conditions and changes.

Companies and securities rated with long-term BB, B, CCC, and short-term B1, B2, C categories should be considered “speculative” by the market.

(TR) B1	(TR) BB+ (TR) BB (TR) BB-	Carries minimum level of speculative features. Not in danger in the short term, but faces negative financial and economic conditions. If securities; below investment level, but on-time payments prevail, or under less danger than other speculative securities. However, if the issuer’s capacity to fulfil its obligations weakens, serious uncertainties may unfold.
(TR) B2	(TR) B+ (TR) B (TR) B-	Currently has the capacity to fulfil financial obligations, but highly sensitive to adverse economic and financial conditions. If securities; there is a risk in due payment. Financial protection factors can show high fluctuations depending on the conditions of the economy, the sector, and the issuer.
(TR) C	(TR) CCC+ (TR) CCC (TR) CCC-	Well below investment grade. In considerable danger of default. Fulfilment of its financial obligations depends on the positive performance of economic, sectoral and financial conditions. If securities; there are serious uncertainties about the timely payment of principal and interest.
(TR) D	(TR) D	Event of default. The company cannot meet its financial obligations or cannot pay the principal and/or interest of the relevant securities.

Disclaimer

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